GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:4159
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EFFECT OF INCREASE IN REPO RATE
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Will the Minister of FINANCE be pleased to state:

(a) whether the share market is being affected due to continuous increase in the reverse-repo rate by the Reserve Bank of India (RBI);

(b) if so, the reasons therefor;

(c) whether any effective steps have been taken/is being taken by the Government check the fluctuations; and

(d) the sectors getting affected due to the measures taken by the RBI to check inflation?

Answer

MINISTER OF THE STATE IN THE MINISTRY OF FINANCE (SHRI PAWAN KUMAR BANSAL)

(a) and (b): The reverse repo rate was last increased by the Reserve Bank of India on 25th July, 2006 to 6% and since then it remains at the same level. However, the movement of market indices or price of a specific share is a function of perceptions of the investors − domestic and overseas, retail and institutional − about the economy, the sector and the company. This perception is influenced by many factors including macro-economic environment, growth potential of the economy, corporate performance, domestic and international events, and market sentiments.

(c) The Government, Securities and Exchange Board of India and Exchanges have put in place systems and practices to promote a safe, transparent and efficient market and to protect market integrity. The systems include advanced risk management mechanism comprising on-line monitoring and surveillance, various limits on positions, margin requirements, circuit filters, etc. which reduce possibility of crash in market.

(d) The monetary and prudential measures initiated by the Reserve Bank address issues relating to aggregate demand management in terms of credit and money supply growth. It is difficult to identify impact on specific sectors.